

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 PA-01 PRS-01 /082 W

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R 142053Z OCT 75

FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC 7817

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POUCHED FOR INFO TO ALL AMCONSULS IN CANADA

EO 11652 NA

TAGS ECON CA

SUBJ PM TRUDEAU UNVEILS NEW INFLATION-FIGHTING

POLICY WITH SELECTIVE WAGE/PRICE CONTROLS

BEGIN UNCLASSIFIED

1. SUMMARY. IN NATIONWIDE RADIO AND TV ADDRESS ON OCTOBER 13 PM TRUDEAU REVEALED GOC ANTI-INFLATION PROGRAM TO BE SUBMITTED PARLIAMENT NEXT DAY. PROGRAM TO INCLUDE SELECTIVE WAGE/PRICE CONTROLS, CURTAILED GOVERNMENT EMPLOYMENT AND SPENDING, REQUEST TO PROVINCIAL AUTHORITIES TO FOLLOW GOC LEAD, AND WARNING TO PUBLIC TO EXPECT FULL CONTROLS IF PROGRAM NOT SUCCESSFUL. REACTION FROM VARIOUS GROUPS MIXED WITH PC OPPOSITION AND SOME BUSINESS LEADERS GENERALLY FAVORABLE; NDP AND LABOR HIGHLY CRITICAL, AND PROVINCIAL AUTHORITIES TAKING WAIT-AND-SEE ATTITUDE. END SUMMARY.

2. PM TRUDEAU APPEARED ON NATIONAL TV AND RADIO ON EVENING OCTOBER 13 AND ANNOUNCED IN SOMBER TONES HE WAS TABLING LEGISLATION FOLLOWING DAY IN PARLIAMENT IMPOSING MOST SWEEPING CONTROLS ON ECONOMY SINCE WORLD WAR II. SELECTIVE WAGE AND PRICE CONTROLS
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WOULD BE INTRODUCED; FEDERAL EMPLOYMENT, EXCEPT FOR LIMITED

EXEMPTIONS, TO BE FROZEN; GOVERNMENT SPENDING TO BE CURTAILED BUT NOT DECREASED; ANTI-INFLATION REVIEW BOARD TO BE ESTABLISHED; PROVINCIAL AUTHORITIES ASKED TO FOLLOW GOC EXAMPLE, AND ALL SEGMENTS OF SOCIETY REQUESTED CURTAIL THEIR DEMAND ON ECONOMY. TRUDEAU WARNED IF PROGRAM UNSUCCESSFUL, FULL CONTROLS COULD BE EXPECTED.

3. MANDATORY WAGE AND PRICE CONTROLS TO BECOME EFFECTIVE ON OCTOBER 14 WOULD APPLY TO 1,500 LARGEST CANADIAN FIRMS, FEDERAL GOVERNMENT, MOST CONSTRUCTION FIRMS, AND PROFESSIONAL GROUPS. MAXIMUM SALARY INCREASES DURING FIRST YEAR OF PROGRAM WOULD BE LIMITED TO 8 PERCENT, WITH ADDITIONAL 2 PERCENT FOR PRODUCTIVITY INCREASES AND ANOTHER 2 PERCENT FOR THOSE IN "CATCH-UP" CATEGORY. PRICE INCREASES WOULD BE ALLOWED ONLY TO COVER INCREASED COSTS.

4. ANTI-INFLATION REVIEW BOARD TO BE ESTABLISHED TO MONITOR WAGE AND PRICE INCREASES WOULD HAVE AUTHORITY TO ROLL BACK EXCESSIVE INCREASES, AND TRUDEAU PROMISED UNSPECIFIED PENALTIES FOR NON-COMPLIANCE. TRUDEAU SAID PROGRAM WOULD NOT IMPOSE "EXTREME HARDSHIP" ON CANADIAN PUBLIC BUT "STRONG MEDICINE" WAS NEEDED TO RESTRICT EXCESSIVE DEMANDS MADE ON ECONOMY.

5. TRUDEAU SAID GOC DEPARTMENTS WOULD BE INSTRUCTED TO MAKE ADMINISTRATIVE ECONOMIES BUT OVERALL GOVERNMENT SPENDING WOULD NOT BE REDUCED SINCE "VITAL SERVICES" PAYMENTS MAY INCREASE. FEDERAL EMPLOYMENT, EXCEPT FOR PERSONNEL INCREASES TO MONITOR ANTI-INFLATION PROGRAM AND TO CARRY OUT YET TO BE ANNOUNCED NEW PROGRAM FOR ALW AND ORDER, WOULD BE FROZEN.

6. BLAMING CURRENT INFLATIONARY SPIRAL ON BIG BUSINESS AND BIG LABOR, WHICH TRUDEAU CLAIMED WERE ABLE TO INCREASE WAGES AND PRICES AT WILL, HE SAID THAT IF THESE POWERFUL GROUPS CUT BACK THEIR DEMANDS, LESS INFLUENTIAL GROUPS WOULD FOLLOW. ONLY SMALL PORTION OF TOTAL POPULATION IS SUBJECT TO MANDATORY CONTROLS, TRUDEAU MAINTAINED, AND PROGRAM'S SUCCESS IS DEPENDENT ON VOLUNTARY RESTRAINT BY ENTIRE POPULACE. "DANGEROUS TENDENCY", SAID TRUDEAU, IS BELIEF THAT ONLY GOVERNMENT CAN CONTROL INFLATION WHEREAS "FUNDAMENTAL CAUSE OF INFLATION IS THAT TOO GREAT A NUMBER OF GROUPS TRY TO INCREASE THEIR INCOMES AT RATES GREATER THAN THE INCREASE IN THE NATIONAL WEALTH".
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7. INITIAL REACTION TO TRUDEAU'S PROPOSAL WAS MIXED. IN TV INTERVIEWS, PC LEADER STANFIELD SEEMED WELCOME CONTROLS BUT CRITICIZED APPARENT OPENENDEDNESS OF PROGRAM AND SAID HE BELIEVED CONTROLS COULD WORK FOR ONLY SHORT PERIOD OF TIME. NDP LEADER BROADBENT SAID HE WAS AGAINST PROGRAM ON BASIS OF FAILURE BY TRUDEAU TO TAKE ACTION ON RENT CONTROL AND HIS INTERPRETATION OF CONTROLS AS BEING HEAVILY WEIGHTED ON SIDE

OF WAGE RESTRICTIONS FOR MEDIUM AND LOWER-INCOME GROUPS AND NOT ENOUGH EMPHASIS ON PRICE, PROFIT AND UPPER-INCOME CURTAILMENTS. CLC PRESIDENT MORRIS SAID HE WOULD NOT SUPPORT PROGRAM, BUT SOME BUSINESS LEADERS INTERVIEWED BY CBC CLAIMED THEY WOULD BE PREPARED FOLLOW GOC PROGRAM. PROVINCIAL PREMIERS, WHO HAD BEEN BRIEFED BY TRUDEAU EARLIER IN DAY, GAVE MAINLY NONCOMMITTAL COMMENTS ON PROGRAM, ALTHOUGH MOST VOICED SATISFACTION THAT GOVERNMENT WAS FINALLY SHOWING LEADERSHIP IN ECONOMIC FIELD.

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8. COMMENT: MANDATORY FEATURES OF PROGRAM (E.G., SELECTED WAGE AND PRICE CONTROLS) APPEAR ON SURFACE TO BE HIGHLY RESTRICTIVE IN LIGHT OF RECENT WAGE SETTLEMENTS RUNNING AT ABOUT 18 PERCENT. HOWEVER, MAXIMUM ALLOWABLE INCREASE OF 12 PERCENT WOULD STILL BE ABOVE CURRENT CPI INCREASE OF AROUND 11 PERCENT, AND 12 PERCENT INCREASE FOR APPROXIMATELY ONE-THIRD OF CANADA'S WORK FORCE (AS ESTIMATED BY COMMENTATORS WOULD BE COVERED BY PROGRAM), MIGHT BECOME FLOOR INCREASE FOR OTHER LABOR GROUPS.

9. ADMINISTRATIVE NIGHTMARES COULD ENSUE FOR REVIEW BOARD ON COST INCREASES AS ABSOLUTE STANDARD FOR PRICE MARKUPS. TRUDEAU HIMSELF ACKNOWLEDGED THAT MANY RECENT WAGE AND PRICE INCREASES HAVE YET TO WORK THEMSELVES THROUGH CANADIAN ECONOMY.

10. THE EFFECTIVENESS OF TRUDEAU'S PROGRAM IS LIKELY DEPEND ON HOW MANY "TEETH" IT HAS (THIS WILL NOT BE KNOWN UNTIL IMPLEMENTING LEGISLATION IS INTRODUCED) AND ON HOW FIRMLY GOVERNMENT APPLIES GUIDELINES TO ITS OWN OPERATIONS. A KEY TEST IS LIKELY TO BE THE GOC'S POSITION ON ITS CURRENT DISPUTE WITH THE POSTAL WORKERS WHOSE LEADERS ARE DISSATISFIED

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WITH A CONCILIATION BOARD'S PROPOSAL FOR A 38 PERCENT WAGE INCREASE OVER 30 MONTHS PLUS COST-OF-LIVING ADJUSTMENTS AND ARE SEEKING A MANDATE FROM UNION MEMBERS TO REOPEN NEGOTIATIONS OR TAKE STRIKE ACTION.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: INFLATION, ECONOMIC PROGRAMS, WAGE CONTROLS, PRICE CONTROLS
Control Number: n/a
Copy: SINGLE
Draft Date: 14 OCT 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: SmithRJ
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975OTTAWA03903
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750356-0657
From: OTTAWA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19751055/aaaabxgi.tel
Line Count: 159
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: SmithRJ
Review Comment: n/a
Review Content Flags:
Review Date: 06 MAY 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <06 MAY 2003 by ShawDG>; APPROVED <30 SEP 2003 by SmithRJ>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: PM TRUDEAU UNVEILS NEW INFLATION-FIGHTING POLICY WITH SELECTIVE WAGE/PRICE CONTROLS
TAGS: ECON, CA, (TRUDEAU, PIERRE)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006